

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the County of Fauquier, Virginia presents the following discussion and analysis as an overview of the County of Fauquier's financial activities for the fiscal year ending June 30, 2003. We encourage readers to read this discussion and analysis in conjunction with the transmittal letter in the Introductory Section of this report, and the County's financial statements which follow this discussion and analysis.

FISCAL YEAR 2003 FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the net assets of the County, excluding its component unit, Schools, totaled \$91.9 million. Of this amount, \$17.0 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors (Exhibit 1).
- For the fiscal year, general and program revenues of the County's governmental activities, excluding its component unit, Schools, totaled \$124.5 million and expenses totaled \$113.1 million. As a result, the County's total net assets increased by 14.2%, \$11.4 million, from fiscal year 2002 (Exhibit 2).
- The component unit, Schools, revenues totaled \$89.3 million and expenses totaled \$87.0 million. Schools net assets increased by 5.7%, \$2.3 million, over fiscal year 2002 (Exhibit 2).
- As of June 30, 2003, the County governmental funds reported combined fund balances of \$68.3 million, a decrease of \$1.4 million in comparison with the prior year. Approximately 35.2% of the combined fund balances, or \$24.1 million, is undesignated and available to meet the County's current and future needs (Exhibits 3 & 5).
- The General Fund reported a fund balance of \$22.7 million, an increase of \$406,178 from June 30, 2002 (Exhibit 5).
- For the County's business-type activities, revenue totaled \$17.3 million and expenses totaled \$15.0 million. As a result, net assets increased 23.1%, \$2.3 million. The primary contributor to this increase in net assets was from the Solid Waste Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of four sections: introductory, financial, statistical, and compliance.

- The introductory section includes the transmittal letter, a copy of the 2002 Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association, the County's organizational chart, and list of principal officials.
- The financial section includes the Independent Auditors' Report, management's discussion and analysis (this section), the basic financial statements, required supplemental information, and combining and individual fund statements and schedules.
- The statistical section includes selected financial and demographic data related to the County, generally presented on a multi-year basis.

- The compliance section is required under the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget circular A-133, Audits of State, Local Governments and Non-profit Organizations; and includes the auditors' reports on compliance and internal control.

Financial Section Overview

This discussion and analysis is intended to serve as an introduction to the Financial Section of the CAFR, which consists of four parts – the Independent Auditors' Report, the basic financial statements, required supplementary information, and the combining and individual fund statements and schedules.

The Independent Auditors' Report reflects the results of the external audit. The auditor expresses an opinion on whether the financial statements have been presented in conformity with generally accepted accounting principles (GAAP).

The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements and the fund financial statements present different views of the County. These two types of statements are discussed in more detail in the following sections.

The required supplementary information includes this discussion and analysis, and the budgetary comparison shown in Exhibit 12.

Finally, the combining and individual fund statements and schedules are included, which presents combining statements for nonmajor governmental funds, fiduciary funds, and the component unit as well as other supporting schedules.

Government-wide Financial Statements

The government-wide financial statements (Exhibits 1 and 2) report information about the County as a whole using accounting methods similar to those found in the private sector. They also report the County's net assets and how they have changed during the fiscal year. These statements provide both long-term and short-term information about the County's overall financial status.

The Statement of Net Assets (Exhibit 1) presents information on all of the County's assets and liabilities. Net assets is the difference between assets and liabilities, which provides a measure of the County's financial health, or financial condition. Over time, increases or decreases in the net assets may serve as an indicator of whether the County's financial condition is improving or deteriorating. Other non-financial factors will also need to be considered, such as changes in the County's property tax base and the condition of the County's facilities.

The Statement of Activities (Exhibit 2) presents information using the accrual basis of accounting, and shows how the County's net assets changed during the fiscal year. All of the current year's revenues and expenses are shown in this statement, regardless of when cash is received or paid. The Statement of Activities presents expenses before revenue to emphasize that the government's revenue is generated for the express purpose of providing services.

In the government-wide financial statements, the County's activities are divided into three categories:

- Governmental activities: Most of the County's basic services are reported here, including general government, judicial administration, public safety, public works, health and welfare, education, parks and recreation, and community development. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Governmental funds and internal service funds are included in the governmental activities.

- Business-type activities: The County charges fees to users to cover all, or a significant portion, of the costs associated with the provision of certain services. These business-type activities of Fauquier County are intended to be self-supporting and include Solid Waste, Airport, Fleet Maintenance, and Health Insurance.
- Component unit: The County has one component unit, the Fauquier County Public Schools, which is included in this annual financial report. Although legally separate, this discretely presented component unit is important because the County is financially accountable for it. A primary government is accountable for an organization if the primary government is able to impose its will on the organization or the organization is capable of imposing specific financial burdens on the primary government. The County approves debt issuances for the School Board and provides significant funding for its operation. Additional information on the component unit can be found in Note 1 of the Notes to Financial Statements Section of this report.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statements more familiar. These statements focus on individual parts of the County's government, reporting the County's operations in more detail than the government-wide statements. Funds are used to ensure compliance with finance-related legal requirements and are used to keep track of specific sources of revenue and expenses for particular purposes. The County has three kinds of funds:

- Governmental Funds – Most of the County's basic services are included in governmental funds, which focus on (1) the in flows and out flows of cash and other financial assets that can be readily converted to cash, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The County has two major funds, the General Fund and the Capital Projects Fund. The General Fund is the main operating account of the County and therefore, the largest of the governmental funds. The Capital Projects Fund is used to account for major capital projects, primarily construction related. It provides control over resources that have been segregated for specific capital projects. All other governmental funds, which include special revenue funds, are collectively referred to as nonmajor governmental funds.
- Proprietary Funds – The County's proprietary funds consists of four enterprise funds, which operate in a manner similar to private business enterprises in which costs are recovered primarily through user charges or fees. Proprietary fund financial statements provide both long- and short-term financial information. The County's enterprise funds include Solid Waste Fund, Airport Fund, Fleet Maintenance Fund, and Health Insurance Fund.
- Fiduciary Funds – Fiduciary funds are used to account for resources held by the County for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the funds are not available to support the County's programs. The County's fiduciary funds consist of private purpose trust funds and agency funds. The funds are used to account for monies received, held, and disbursed on behalf of volunteer fire and rescue association members, certain developers, the Commonwealth of Virginia, and certain other agencies and governments.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As this is the first year the County has included management's discussion and analysis, in accordance with GASB 34, the County is not required to restate prior periods for the purposes of providing comparative information. In future years, however, when prior information is available, a comparative analysis of government-wide information will be presented.

Statement of Net Assets:

Table 1 summarizes the Statement of Net Assets (Exhibit 1 in the Financial Section of the CAFR) for the primary government and component unit.

Table 1 Summary of Net Assets As of June 30, 2003 (\$ in millions)				
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total Primary Government	Schools
Assets:				
Current and other assets	\$ 80.7	\$ 7.0	\$ 87.7	\$ 9.3
Capital assets (net)	66.9	13.5	80.4	45.6
Total assets	147.6	20.5	168.1	54.9
Liabilities:				
Other liabilities	15.7	2.2	17.9	9.3
Long-term liabilities	52.4	5.9	58.3	3.2
Total liabilities	68.1	8.1	76.2	12.5
Net assets:				
Invested in capital assets, net of related debt	17.2	13.5	30.7	45.6
Restricted	44.2	-	44.2	
Unrestricted	18.1	(1.1)	17.0	(3.2)
Total net assets	\$ 79.5	\$ 12.4	\$ 91.9	\$ 42.4

The Commonwealth of Virginia requires that counties, as well as their financially dependent component units, be financed under a single taxing structure. This results in counties issuing debt to finance capital assets, such as public schools, for their component units. For the purpose of this financial statement, the debt and correlating asset of the schools are recorded as an asset and long-term liability of the primary government. The primary government consists of governmental activities and business-type activities. GASB Statement No. 14, *The Financial Reporting Entity*, requires that the primary government and its component units, which make up the total reporting entity, be accounted for separately on the face of the basic financial statements.

In the case of the primary government, total assets exceeded total liabilities by \$91.9 million at June 30, 2003. The largest portion of net assets, \$44.2 million, reflects funds restricted for capital projects. An additional \$30.7 million represents the County's investment in capital assets (e.g., land, building, and equipment), less the depreciation and outstanding debt associated with the asset acquisition. The unrestricted net assets of the governmental activities totaled \$17.0 million. For the business-type activities unrestricted net assets showed a deficit of \$1.1 million. This deficit does not mean that there are insufficient resources available to pay the bills; but that long-term commitments are greater than currently available resources. Specifically, the Solid Waste Fund did not receive user fees sufficient to finance the non-current portion of long-term debt. For the component unit, Schools, unrestricted net assets showed a deficit of \$3.2 million. This deficit occurred

because revenue collections were insufficient to cover the long-term liabilities associated with unused employee vacation and sick leave accruals. These long-term liabilities are intended to be financed in part with future resources.

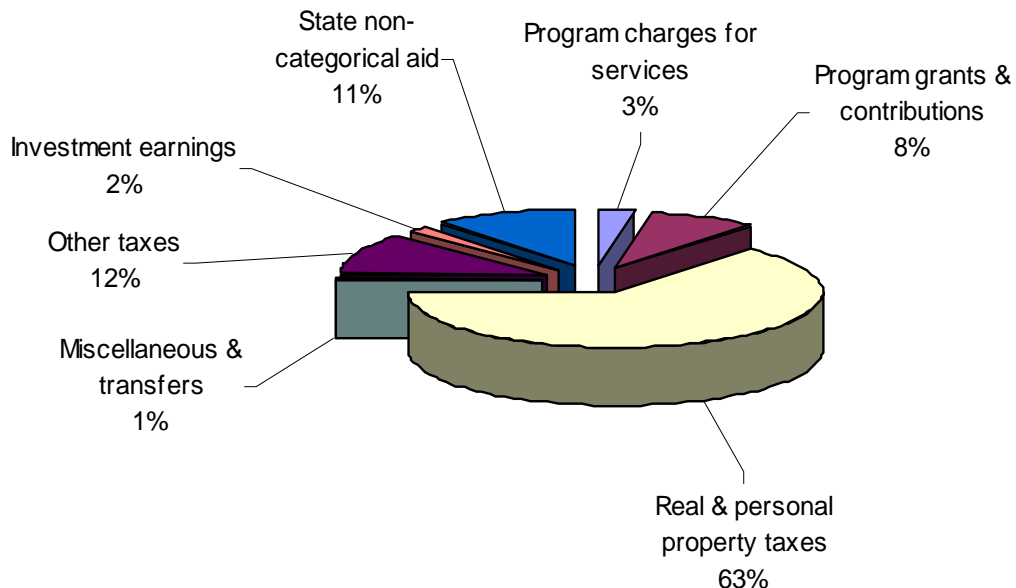
Statement of Activities

Table 2 summarizes the Statement of Activities (Exhibit 2 in the Financial Section of the CAFR) for the primary government and component unit.

Table 2 Summary of Activities For the Fiscal Year Ended June 30, 2003 (\$ in millions)				
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total Primary Government	Schools
<u>Revenues</u>				
Program revenues:				
Charges for services	\$ 3.1	\$ 16.7	\$ 19.8	\$ 2.5
Operating grants and contributions	9.1	-	9.1	56.2
Capital grants	-	0.5	0.5	-
General revenues:				
Real & personal property taxes	68.0	-	68.0	-
Other taxes	12.6	-	12.6	-
Investment earnings	1.7	0.1	1.8	-
Miscellaneous	0.6	-	-	0.4
Commonwealth non-categorical aid	12.0	-	12.0	30.2
Total revenues	<u>107.1</u>	<u>17.3</u>	<u>124.4</u>	<u>89.3</u>
<u>Expenses</u>				
General government	7.2	-	7.2	-
Judicial administration	2.3	-	2.3	-
Public safety	13.4	-	13.4	-
Public works	6.1	-	6.1	-
Health & welfare	5.8	-	5.8	-
Education	53.4	-	53.4	87.0
Parks, recreation & cultural	3.0	-	3.0	-
Community development	3.7	-	3.7	-
Other	0.5	-	0.5	-
Interest - long-term debt	2.7	-	2.7	-
Solid waste	-	4.2	4.2	-
Airport	-	0.2	0.2	-
Fleet maintenance	-	1.7	1.7	-
Health insurance	-	8.9	8.9	-
Total expenses	<u>98.1</u>	<u>15.0</u>	<u>113.1</u>	<u>87.0</u>
Changes in net assets	9.1	2.3	11.4	2.3
Beginning net assets	70.4	10.1	80.5	40.1
Ending net assets	<u>\$ 79.5</u>	<u>\$ 12.4</u>	<u>\$ 91.9</u>	<u>\$ 42.4</u>

Governmental Activities: As reflected in Table 2, total primary government net assets increased by \$11.4 million. Of this amount, governmental activities accounted for \$9.1 million, or 79.5% of the total primary government increase in net assets. Revenues from governmental activities totaled \$107.1 million. Of these revenues, \$12.2 million, or 11.4% of the total revenue, was generated from program revenues. The most significant portion of program revenue was generated from grant and contribution revenues that subsidize specific programs and activities, totaling \$9.1 million. In addition, \$3.1 million was generated from charges for services. Public safety programs accounted for the largest share of the charges for services revenue at \$1.4 million. The remaining revenues are from general revenue such as taxes and investment earnings. The following chart provides a breakdown of revenue collections by source. Taxes comprise the largest source of these revenues, totaling \$80.6 million, or 75.4% of all governmental activities revenue. Of this amount, real and personal property taxes comprise 63.5% of the taxes collected. In fiscal year 2003, the County was able to maintain the rates on its taxes at prior year levels.

**Governmental Activities – Revenues by Source
For the Fiscal Year Ended June 30, 2003**



As shown in Table 2, the total expenses for governmental activities for this fiscal year were \$98.1 million. The following chart illustrates total expenses by function. Education continues to be the County's largest program and highest priority with expenses totaling \$53.4 million, or 55% of total expenses. The amount shown in Table 2 for education only covers the direct costs incurred by the Fauquier County Public Schools. In addition, education incurs indirect expenditures, which are reported in the governmental activities (General Fund). The County has consolidated the services provided by the departments of general services (maintenance of buildings and grounds), human resources, and finance. Approximately 70% of the costs of these consolidated functions is associated with educational activities. As shown in Exhibit 12 of the Financial Section of this report, these functions cost approximately \$4.8 million in fiscal year 2003. The portion allocated to education is approximately \$3.3 million. Typically, school systems bear these costs directly. However, in Fauquier County with the consolidated departments, the costs are shown in the General Fund. Recognizing these costs as a function of education results in approximately 57.8% of the total expenses related to education. Further, the County incurs debt service for school facilities that are retained as County assets until the debt is paid in full. In fiscal year 2003, the debt service and

fiscal charges on school facilities totaled \$6.2 million. Public safety expenses, which total \$13.4 million (13.6%), represent the second largest expense category for governmental activities.

**Governmental Activities
Functional Expenses
For the Fiscal Year Ended June 30, 2003**

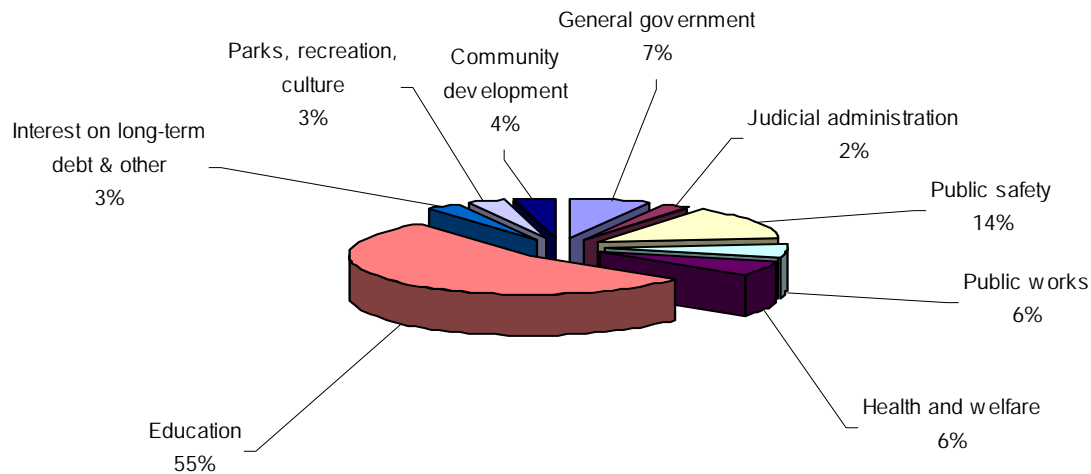


Table 3 illustrates the net cost (total expenses less fees generated by the activities and program-specific governmental aid) for the County's governmental activities.

Table 3 Net Cost of Governmental Activities For the Fiscal Year Ended June 30, 2003 (\$ in millions)		
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
General government	\$ 7.2	\$ 6.7
Judicial administration	2.3	0.4
Public safety	13.4	8.2
Public works	6.1	6.0
Health & welfare	5.8	2.4
Education	53.4	53.4
Parks, recreation and culture	3.0	2.4
Community development	3.7	3.2
Interest on long-term debt & other	3.2	3.2
Total	\$ <u>98.1</u>	\$ <u>85.9</u>

As Table 3 demonstrates, governmental activities generate revenue that helps offset the cost of those services. For example, revenue is generated from charges for courtroom security, which helps offset the cost to protect the public; for parks and recreation activities, which offsets some cost in offering these programs; and from some grants, which are program specific. After recognizing the revenue from these fees, grants, and contributions, the net cost of governmental activities was \$85.9 million. General revenue, primarily in the form of taxes, and State aid are needed to support the services that are not fee supported.

Business-type activities: Table 2 also summarizes the business-type activities. These activities increased the County's net assets by \$2.3 million, accounting for 20.2% of the total increase in net assets of the County. Revenues totaled \$17.3 million of which 96.5% (\$16.7 million) was generated by user fees or charges for services. Business-type activities are generally intended to be self-supporting. Fees are established to recover the cost of providing the service.

The total expenses for business-type activities were \$15.0 million, of which 70.7% was associated with the health insurance and fleet maintenance programs. The component unit, Schools, is the largest customer for the health insurance and fleet activities, accounting for approximately 75% of the activity.

Component unit activities: Table 2 also summarizes the activities of the Schools. Revenues of \$89.3 million and expenses of \$87.0 million resulted in an increase in net assets of \$2.3 million. The County's contribution of \$56.1 million was the most significant revenue source, accounting for 62.8% of Schools funding. State aid also contributed an additional \$30.2 million, or 33.8% of the total revenue.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As of June 30, 2003, the County's governmental funds reported a combined ending fund balance of \$68.3 million (Exhibit 3), a decrease of \$1.4 million in comparison with the prior year. Approximately 35.3%, or \$24.1 million, is available for spending at the government's discretion (unreserved/undesignated fund balance). The remaining fund balance is reserved or designated for such uses as capital projects (\$44.1 million) for County and Schools, and for parks & recreation.

The General Fund is the main operating fund of the County. At the end of the current fiscal year, the General Fund had an unreserved fund balance of \$22.7 million (Exhibit 3). The General Fund's liquidity can be measured by comparing unreserved fund balance to total fund revenues. Unreserved fund balance represents 22.4% of total revenues in the General Fund. Effective fiscal year 2003, the Board of Supervisors adopted a resolution setting a minimum fund balance target for the General Fund of 10% of General Fund revenue. Unless the Board of Supervisors determines to retain fund balance in the General Fund above the minimum target, amounts in excess of the target will be transferred to the construction reserve account in the Capital Projects Fund for future capital needs. For the fiscal year, the fund balance in the General Fund increased by a modest 1.8% (\$406,178), suggesting that revenue sources and actual expenditures were well balanced.

Significant outlays in fiscal year 2003 included the following:

- The General Fund contributed \$51.0 million in operating funds to finance the Schools operations.
- The General Fund also incurred \$6.2 million in debt service for schools construction projects funded with bond proceeds from the issuance of general obligation bonds.
- The County incurred \$1.1 million in debt service for County projects such as the radio system and the County office building at Hospital Drive.
- The General Fund transferred \$7.7 million to the Capital Projects Fund to fund capital improvement projects for the County.

BUDGETARY HIGHLIGHTS

General Fund

Table 4 provides a comparison of original budget, final amended budget, and actual revenues and expenditures in the General Fund.

Table 4 Budgetary Comparison General Fund For the Fiscal Year Ended June 30, 2003 (\$ in millions)			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
<u>Revenues</u>			
Taxes	\$ 84.3	\$ 72.9	\$ 76.2
Other	3.3	3.7	4.7
Intergovernmental	9.0	20.8	20.5
Total	<u>96.6</u>	<u>97.4</u>	<u>101.4</u>
<u>Expenditures</u>			
Expenditures	<u>95.4</u>	<u>98.7</u>	<u>92.6</u>
Excess (deficiency) of revenues over expenditures	<u>1.2</u>	<u>(1.3)</u>	<u>8.8</u>
<u>Other financing sources (uses)</u>			
Transfers	<u>(1.2)</u>	<u>(8.4)</u>	<u>(8.4)</u>
Change in fund balance	\$ <u>-</u>	\$ <u>(9.7)</u>	\$ <u>0.4</u>

During the year, budget amendments approved by the Board of Supervisors could be classified in the following key categories:

- Amendments for operating and capital projects that were incomplete in the prior fiscal year, and subsequently reappropriated in the new fiscal year.
- Amendments for supplemental appropriation for new projects, and/or change orders for prior approved projects.
- Amendments for transfers and adjustments to support revised priorities and account code restructuring.

Final amended budget revenues exceeded the original budget by \$824,869, primarily due to increases in collections from charges for services, federal grants, permits, fees and fines. The amended budget for charges for services increased by \$222,745, or 27.0% of the total increase. Revenue, particularly from court-related charges such as filing fees, performed well above projections. Federal grants were awarded, resulting in amendments totaling \$242,378. These grants were primarily for public safety and social service programs. Actual revenues and “transfers in” exceeded the amended budget by \$4.0 million. Tax collections, accounted for \$3.3 million, or 82.2% of the total increase. Increases in tax collections occurred in real and personal property, sales taxes, utility and business license taxes, and recordation taxes.

The final amended budget for expenditures and “transfers out” totaled \$107.1 million compared to the original budget of \$96.6 million, an increase of \$10.5 million. The difference is primarily due to the addition of transfers to the Capital Projects Fund for major construction projects, including \$2.0 million for the Warren

Green Building renovation, \$1.1 for the detention center renovation, \$1.0 million to the Schools construction reserve, and \$1.1 for the northern swimming pool and Bealeton Library projects.

Actual expenditures and “transfers out” for the General Fund totaled \$101.0 million, or \$6.1 million less than the amended budget. Of this difference, \$3.0 million is a reduction in the transfer to the component unit, Schools, and the remaining difference is attributed to performance under budget by general government, judicial administration, public safety, comprehensive services, community development, parks and recreation, and contingency reserves. For the Schools, the County transfers its appropriation based on actual expenditures. Any savings the schools generate in the form of unexpended appropriations are reappropriated in the new fiscal year to cover one-time school operating needs and capital projects. Therefore \$3.0 million in fiscal year 2003 unexpended appropriations will be reappropriated in fiscal year 2004 to support one-time operating needs, and capital projects. The other significant category which performed under budget was the contingency reserve accounts. The amended contingency reserve budget totaled \$1.1 million with less than \$16,000 expended. These reserves were for such items as fuel, salary adjustments and health insurance, which were adequately covered by departmental budgets.

Major Capital Projects Fund

Table 5 provides a comparison of original budget, final amended budget, and actual revenues and expenditures in the Capital Projects Fund.

Table 5 Budgetary Comparison Capital Projects Fund For the Fiscal Year Ended June 30, 2003 (\$ in millions)			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
<u>Revenues</u>			
Taxes	\$ -	\$ 0.1	\$ 0.2
Other	-	-	0.7
Intergovernmental	3.6	4.6	4.1
Total	<u>3.6</u>	<u>4.7</u>	<u>5.0</u>
<u>Expenditures</u>			
General government	2.4	3.0	1.1
Public safety	9.1	10.4	4.3
Public works	9.6	13.3	1.6
Education	21.6	21.8	6.9
Parks, recreation & cultural	16.3	18.2	2.6
Community development	4.8	5.7	0.4
Debt service		0.2	0.1
Total expenditures	<u>63.8</u>	<u>72.6</u>	<u>17.0</u>
Excess (deficiency) of revenues over expenditures	<u>(60.2)</u>	<u>(67.9)</u>	<u>(12.0)</u>
<u>Other financing sources</u>			
Transfers in	1.0	8.2	8.2
Bond & note proceeds	13.5	13.5	1.7
Total other financing sources	<u>14.5</u>	<u>21.7</u>	<u>9.9</u>
Change in fund balance	<u>\$ (45.7)</u>	<u>\$ (46.2)</u>	<u>\$ (2.1)</u>

As reflected in Table 5, the amended budget revenues and other financing sources exceeded the original budget by \$8.2 million. Amendments to revenue are primarily attributed to “transfers in” from the General Fund to

support such construction related projects such as the Warren Green Building renovation, school construction reserve, and parks and recreation and library projects. Also, grants were awarded by the State for parks and recreation projects. Actual revenue and other financing sources were \$11.5 million less than the amended budget because the amended budget included bond proceeds, but the County delayed the bond issuance for the new fiscal year to more appropriately meet cash flow needs for the middle school project.

The final amended budget expenditures exceeded the original budget by \$8.8 million as a result of budget supplements for public safety, public works, parks and recreation, and community development. Actual expenditures were \$17.0 million compared to the final amended budget of \$72.6 million. In the Capital Projects Fund, the County budgets approved projects which often cover multiple years. At year end, the remaining project funding is reappropriated. It is typical for the Capital Projects Fund budget to significantly exceed the actual expenditures.

During the year, actual expenditures exceeded actual revenues and other financing sources by \$2.1 million, resulting in the use of fund balance. The County's practice is to transfer cash to the Capital Projects Fund for cash-funded projects at the time of approval. Since the timeline on major capital projects can be lengthy, funds may be transferred in one fiscal year and the expenditure occurs in another fiscal year. With this process, a use of fund balance is expected.

CAPITAL ASSETS AND LONG-TERM DEBT

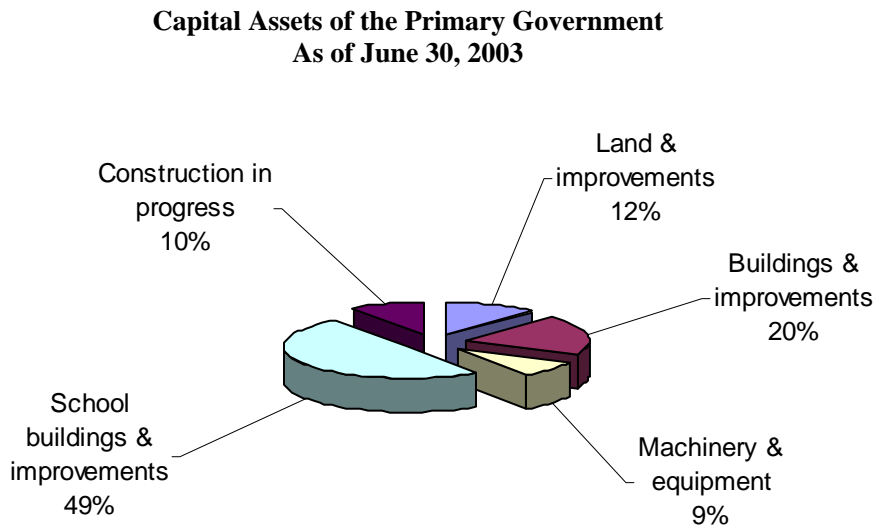
Capital Assets

Table 6 provides information on changes in the capital assets of the governmental funds during fiscal year 2003.

Table 6 Change in Capital Assets Governmental Funds (\$ in millions)			
	Balance July 1, 2002	Net Additions & Deletions	Balance June 30, 2003
Land & improvements	\$ 9.9	\$ -	\$ 9.9
Buildings & improvements	14.7	1.0	15.7
Machinery & equipment	6.2	1.0	7.2
School buildings & improvements *	38.6	1.4	40.0
Construction in progress	1.4	6.4	7.8
Total capital assets	70.8	9.8	80.6
Less: accumulated depreciation	12.1	1.6	13.7
Net capital assets	\$ 58.7	\$ 8.2	\$ 66.9

* School Board capital assets are jointly owned by the County and the component unit School Board. The County maintains ownership of the capital asset until any debt owed on the asset is paid in full. The County reports depreciation expense on these assets until such time as the debt is paid, and the asset is transferred to the component unit, Schools.

As illustrated in Table 6, the County's investment in capital assets for the primary government totaled \$80.6 million before depreciation. The net investment in capital assets (including additions, decreases, and depreciation) increased \$8.2 million, or 14.0%. The County's capital assets includes items such as public safety equipment, buildings, parks & recreation facilities, libraries, schools, buses, and public works vehicles and equipment. The capital assets before depreciation are categorized as shown in the following chart. School buildings and improvements account for the largest category at 49% of the total capital assets.



The County's Capital Improvements Program Committee (Committee), composed of citizen's appointed by the Board of Supervisors by magisterial district, receives the five-year requests from departments, agencies, and the component unit, Schools. The projects are evaluated, and the Committee prepares a recommended five-year program, which is then sent for action by the Planning Commission and the Board of Supervisors. With the fiscal year 2005 budget, this Capital Improvement Program will be extended to a ten-year program. Typically, new requests are only added in the last year of the five-year plan unless mitigating circumstances such as safety concerns are involved. The County has adopted a resolution requiring a voter referendum for projects in which the total costs are \$10.0 million or more. This resolution further requires that in the event the County's debt service requirements exceed 10% of General Fund revenues, a referendum is then required for projects that cost more than \$2.0 million.

This year's major capital asset additions for the governmental activities include the following:

- Improvements in the Warren Green Building in the amount of \$209,881.
- Bealeton Library construction in the amount of \$1.0 million.
- The addition of 24 new police vehicles in the amount of \$497,694.
- Addition of a CAD system and a phone system for public safety in the amount of \$596,288.
- Marshall Community Center renovation in the amount of \$497,966, and the Warrenton Community Center in the amount of \$239,038.
- Auburn Middle School construction in the amount of \$1.4 million.
- Construction of an emergency radio system and towers in the amount of \$3.8 million.

The County's fiscal year 2004 capital improvement plan calls for the following major projects:

- Auburn Middle School construction in the amount of \$11.7 million.
- 800 MHz radio system placed in operation in the amount of \$4.7 million.

- Warren Green Building renovation in the amount of \$1.3 million.
- Northern Sports Complex in the amount of \$9.7 million.
- Adult Detention Center in the amount of \$1.3 million.
- Bealeton Library in the amount of \$1.0 million.

More details on the capital assets are provided in Note 7, Notes to Financial Statements section of this report.

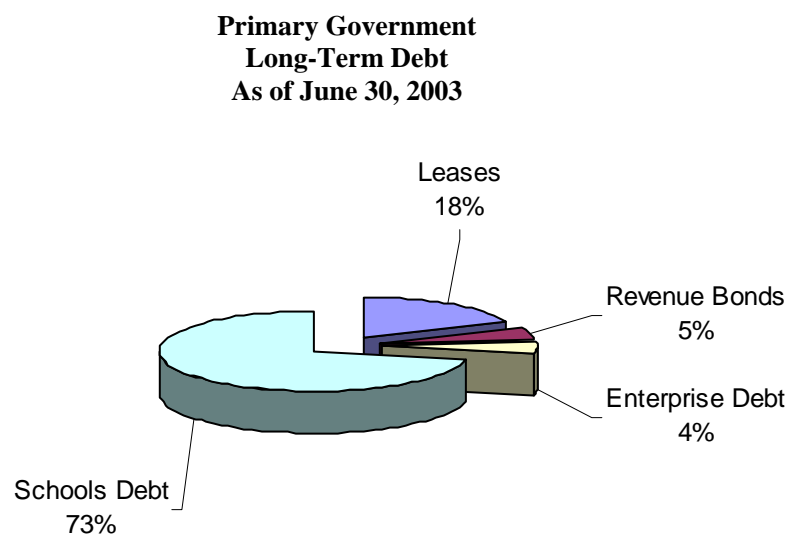
Long-term Debt

Table 7 provides an overview of the long-term obligations (excluding compensated absences) for the primary government.

Table 7 Summary of Changes in Long-Term Debt For the Fiscal Year Ended June 30, 2003 (\$ in millions)			
	Amounts Payable July 1, 2002	Net Increase (Decrease)	Amounts Payable June 30, 2003
Primary Government:			
Capital leases	\$ 9.4	\$ 1.0	\$ 10.4
Revenue bonds	3.1	-	3.1
General obligation bonds	45.0	(3.8)	41.2
Total long-term debt	\$ 57.5	\$ (2.8)	\$ 54.7

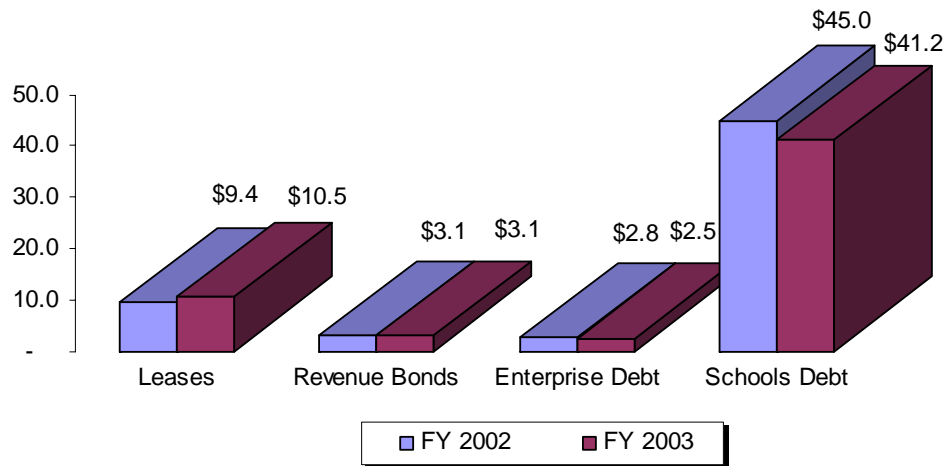
As of June 30, 2003, the County's long-term debt, excluding compensated absences, totaled \$54.7 million. During the year, the County added a capital lease in the amount of \$1.7 million for the construction of a branch library in Bealeton. The lease provides for draws by the County during construction. The County paid interest only for the amount disbursed. The lease amortization will not begin until fiscal year 2004.

The chart below illustrates long-term debt by type and the percentage of each type relative to the total outstanding debt. Schools General Obligation Bonds represent the largest category of debt with 73% of the County's total debt.



The following chart compares long-term indebtedness, less compensated absences, for fiscal year 2002 and 2003 by type and amount outstanding. As shown, lease obligations increased while enterprise debt and school-related debt obligations decreased. The increase in lease obligations resulted from the addition of a \$1.7 million obligation for the Bealeton Library construction.

Long-Term Indebtedness by Obligation Type
(\$ in millions)



The County does not have a legal limit on the amount of general obligation bonded indebtedness that it can at any time incur or have outstanding. However, by State law general obligation indebtedness must be approved by voter referendum prior to issuance except for debt incurred from the State Literary Fund or the Virginia Public School Authority. The County has participated in the Virginia Public School Authority's bond sales for the past several years. The proceeds of these bonds are used exclusively to fund school capital projects.

In its Balanced Scorecard Program, the County adopted two debt ratios as a management tool. The first ratio is to limit annual general government debt service to no more than 10% of General Fund expenditures. In fiscal year 2003, the County's debt to expenditure ratio was 7.3%. The second ratio is total debt per capita. This ratio is compared to past performance and to a peer group of localities. In fiscal year 2003, the general government debt per capita was \$998. This ratio decreased from \$1,071 in the prior year. It also compares favorably with other localities with fiscal year 2002 debt per capita ranging from \$935 for Albemarle County to \$2,884 for Loudon County.

In fiscal year 2004, the County plans to participate in the Virginia Public School Authority General Obligation Bond sale to fund the final construction of the new Auburn Middle School and to begin renovations on Taylor Middle School. Bonds to support these projects will total \$12.4 million.

In making debt issuance decisions, the County uses the following practices:

- The County will not fund current or ongoing operations from debt proceeds.
- The County's Capital Improvement Planning process includes both a pay-as-you-go element (cash funded) and a debt element for the addition of capital assets.
- The County will repay long-term debt over a period that does not exceed the expected useful life of the capital assets being financed.
- The County will comply with finance industry standards for disclosure related to debt offerings.
- The County has set a debt service limit to no more than 10% of General Fund expenditures.

- The County uses a debt per capita ratio as a management tool in evaluating debt capacity, comparing the County to a peer group and to historical performance.

More detailed information on the County's long-term obligations is presented in Note 8, Notes to Financial Statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

- The average unemployment rate for the County of Fauquier in June 2003 was 2.2%, an increase of 0.5% from June 2001. This compares favorably to the state's rate of 4.3% and the national rate of 6.0%. The November 2003 unemployment rate for the County was 1.8% compared to the state's rate of 3.6% and the national rate of 5.7%.
- According to the Weldon Cooper Center, population estimates for Fauquier County as of July 1, 2003 were 57,400, an increase of 2.0% over the prior year. Population estimates for the last ten years are provided in Table 6, Statistical Section of this report.
- The enrollment in public schools increased in fiscal year 2003 by 3.7% from 9,678 to 10,031, after a prior year growth in enrollment of less than one percent. School enrollment for the last ten years is provided in Table 9, Statistical Section of this report.
- The 2001 per capita income for Fauquier County was \$39,058, compared to \$32,338 for the State of Virginia, as reported by the Weldon Cooper Center for Public Service.

Fiscal Year 2004 Budget and Rates

- For fiscal year 2004, the adopted budget for the General Fund is \$101.0 million, an increase of 4.9% over fiscal year 2003. Revenues are comprised primarily of general property taxes at 64.3%, other local taxes at 11.3%, and State assistance at 19.0%.
- The single largest expenditure for the County is the local support of the public school system at 60.7 % of total expenditures. In fiscal year 2004, the County's transfer to the component unit, Schools, increased by 4.0% to \$61.3 million. Public safety is second, accounting for 13.9% of the expenditures. Public safety also has a dedicated real property tax of \$0.07 per \$100 of assessed value. This tax supports County and volunteer fire and rescue operations.
- Tax rates for real and personal property remained unchanged. Detail on the tax rates is provided in Table 5, Statistical Section of this report.
- The County and Schools initiated a revenue sharing program in which the Schools maintained its base contribution from fiscal year 2003, and would receive 60% of any new, non-dedicated revenue.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to Janice G. Bourne, Director of Finance, County of Fauquier, 320 Hospital Drive, Suite 32, Warrenton, Virginia 20186, telephone (540) 428-8726, or visit the County's web site at www.fauquiercounty.gov.